

110 STAT. 1784

PUBLIC LAW 104-188—AUG. 20, 1996

(1) by striking "as provided in subparagraph (B)" and inserting "as otherwise provided in this paragraph"; and  
(2) by striking "section 1367(b)(2)(A)" and inserting "section 1367(a)(2)".

**SEC. 1310. TREATMENT OF S CORPORATIONS UNDER SUBCHAPTER C.**

Subsection (a) of section 1371 (relating to application of chapter C rules) is amended to read as follows:

"(a) APPLICATION OF SUBCHAPTER C RULES.—Except as otherwise provided in this title, and except to the extent inconsistent with this subchapter, subchapter C shall apply to an S corporation and its shareholders."

26 USC 1361 SEC. 1311. ELIMINATION OF CERTAIN EARNINGS AND PROFITS.

(a) IN GENERAL.—If—

(1) a corporation was an electing small business corporation under subchapter S of chapter 1 of the Internal Revenue Code of 1986 for any taxable year beginning before January 1, 1983; and  
(2) such corporation is an S corporation under subchapter S of chapter 1 of such Code for its first taxable year beginning after December 31, 1996.

the amount of such corporation's accumulated earnings and profits (as of the beginning of such first taxable year) shall be reduced by an amount equal to the portion (if any) of such accumulated earnings and profits which were accumulated in any taxable year beginning before January 1, 1983 for which such corporation was an electing small business corporation under such subchapter S.

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (3) of section 1362(d), as amended by section 1308, is amended—

(3) by striking "SUBCHAPTER C" in the paragraph heading and inserting "ACCUMULATED".

(4) by striking "subchapter C" in subparagraph (A)(i)(I) and inserting "accumulated". and

(C) by striking subparagraph (B) and redesignating the following subparagraphs accordingly.

(2)(A) Subsection (a) of section 1375 is amended by striking "subchapter C" in paragraph (1) and inserting "accumulated".

(B) Paragraph (3) of section 1375(b) is amended to read as follows:

"(3) PASSIVE INVESTMENT INCOME. ETC.—The terms 'passive investment income' and 'gross receipts' have the

same respective meanings as when used in paragraph (3) of section 1362(d)."

(5) The section heading for section 1375 is amended by

striking "subchapter C" and inserting "accumulated".

(6) The table of sections for part III of

subchapter S of chapter 1 is amended by striking "subchapter C" in the item relating to section 1375 and inserting "accumulated".

(3) Clause (i) of section 1042(c)(4)(A) is amended by striking "section 1362(d)(3)(D)" and inserting "section 1362(d)(3)(Q)".

**SEC. 1312. CARRYOVER OF DISALLOWED LOSSES AND DEDUCTIONS UNDER AT-RISK RULES ALLOWED.**

Paragraph (3) of section 1366(d) (relating to carryover of disallowed losses and deductions to post-termination transition period) is amended by adding at the end the following new subparagraph: